Summary Description of Proposed Scenarios

At its May 4, 2004 meeting, the Rates Working Group discussed the use of alternative policy scenarios as a tool to: (1) assist the Group in the analysis of the policy implications of the Issues List questions assigned to the Group; and (2) facilitate the overall goals of the Initiative by offering a common set of policy alternatives under which each Working Group could conduct their analyses and then compare and coordinate their results. An initial list of possible scenarios was included in the Agenda for the May 4th meeting, and the Group members are presently considering whether any additional scenarios should be included (final comments are due by May 11th). However, the Group also concluded that it would be helpful if brief descriptions of the initial set of scenarios were made available to the Group and other Initiative participants. Please email any additional scenarios to sgutilla@icc.state.il.us. The suggestions will be forwarded to all conveners for consideration.

Scenario 1. Wholesale market acquisition through "full requirements" auctions. This scenario envisions a load serving entity ("LSE") "vertically" dividing the load obligation being auctioned into tranches, each of which has the same load shape as the total load being auctioned. Prospective suppliers, which may include affiliates, offer full requirements products to serve one or more tranches, with the winning suppliers being selected via an auction. This process could be used for total load or for the load of one or more classes.

Scenario 2. Wholesale market acquisition through "full requirements" RFPs. This scenario envisions an LSE dividing "vertically" the load obligation to be served into tranches, each of which has the same load shape as the total load, and issuing RFPs to the wholesale market seeking vendors to be responsible for supply for each tranche. Winning suppliers, affiliated or otherwise, are selected based on criteria identified in the RFP. As with an auction, the process could be used for total load or for the load of one or more classes.

Scenario 3. Market-based acquisition by horizontal tranche or wholesale market segment. This scenario envisions the LSE dividing its load into "horizontal" segments either by product type (*e.g.*, 7x24, 5x16, etc.) or by resource characteristic (*e.g.,* baseload, intermediate, peaking), with regulatory approval of the product type and term, and seeking wholesale suppliers for each segment. Winning suppliers, affiliated or otherwise, may be selected based on segment auctions or based on an RFP process. This approach could be used for total load or for the load of one or more classes.

Scenario 4. Affiliate purchases (including possible affiliate use of market acquisition). This scenario envisions the LSE contracting with an affiliate to satisfy all of the subject load obligation, including risk management. The affiliate, in turn, may contract with other suppliers to provide resources to meet its contractual obligation through market or other mechanisms.

Scenario 5. Cost-index (e.g., MVI) based procurement regulation. This scenario envisions a regulatory process setting a price benchmark for commodity costs, or for commodity and risk management costs, based on an index or formula. Under this scenario, the regulated LSE is free to design its own procurement strategy. It is at risk if its costs exceed the cap, but can retain at least a share of the benefits if procurement costs are kept below the regulatory benchmark.

Scenario 6. Acquisition pursuant to an administrative Integrated Resource Planning process. This scenario envisions a periodic formal administrative process during which regulated LSEs would offer resource plans specifying forecast needs, proposed supply resources, and/or proposed procurement processes, which would be subject to review, modification, and approval by the regulator(s). The scenario envisions that acquisition will be consistent with the approved plan.

Scenario 1. Rate freeze / transition period extension (continuation of current regulation). This scenario envisions an extension of the Mandatory Transition Period beyond January 2, 2007. Under this scenario, utilities could file revised DST rates and otherwise restructure their rates in accordance with Article XVI, but utility rates would otherwise continue to be subject to the bundled rate "freeze" and the existing rules concerning service obligations and competitive declarations.

Scenario 2. Re-regulation of electricity production. This scenario envisions a fundamental change in legislative direction away from restructuring and reliance on markets, and toward a more regulated cost-of-service model for all aspects of the provision of electric utility service. Under this model, production assets would, to the extent possible, be re-regulated, utilities would again have the obligation to control and/or construct production resources, subject to regulatory approval, with cost recovery through regulated rates. The role of the wholesale market in energy procurement would be consciously reduced as production assets are returned to regulatory control.